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TRANSPORTATION  
COMMISSION

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*Memorandum*

TO: Programming and Delivery Working Group

DATE: September 21, 2009

FR: Craig Goldblatt

RE: ARRA Cost Savings Proposal for LS&R System Preservation Projects

There have been numerous questions raised by project sponsors regarding how to handle cost savings at the time of awarding an ARRA-funded Local Streets and Roads (LS&R) System Preservation (FHWA) project. These projects have been realizing savings between 10 and 40 percent of the engineer's estimate.

The following approaches have been discussed as ways to address significant cost savings upon the award of a construction contract for projects under the "System Preservation Projects - Local Streets and Roads" category:

1. In the case where the project sponsor is bringing sufficient local funds to the project budget, the sponsor may lower the ratio of local funds to federal funds in order to maintain the full use of the ARRA funds originally assigned to the project. The freed up local funds would need to remain available for local streets and roads preservation purposes.
2. A project sponsor, as a contingency, could include additional project segments or components under its request for authorization and include those as contingencies in the advertisement package (if allowed). If there are sufficient cost savings upon award, additional project components could be included in the contract. Conversely, if there are no cost savings, a number of project components could be deleted. To make use of this option the larger inclusive project scope must have been already included in the project scope that was reviewed per NEPA.
3. Cost savings could be redirected to another project after award by de-obligating ARRA funds and re-obligating to another project. A proposal to do this follows below, with no funds de-obligated or re-obligated between September 30, 2009 and March 2, 2010, consistent with Caltrans policy. It is advisable that a project retain 5-10% of the project cost to address change orders and contingencies. See proposal below for more details on this approach.

**Cost Savings for Local Streets and Roads System Preservation:**

If the first two approaches are not workable for a project sponsor, MTC proposes redirecting cost savings to other Local Streets and Roads (LS&R) system preservation projects under the following provisions:

- **Pooling of Savings:** The CMA will pool together cost savings in its county and reprogram these funds to a new project under the same project category type as the original project (within the LS&R System Preservation category). To minimize the number of projects and workloads on Caltrans Local Assistance during the latter part of the ARRA program time frame, the CMA's are directed to select only a few projects that will each use no less than \$500,000 of ARRA funding. MTC will provide flexibility in some cases such as when countywide cost savings do not exceed this amount, but every effort must be made to consolidate savings into a handful of projects, rather than spreading to many lower-valued projects.

- **Cost Savings Realized prior to September 30, 2009:** Savings prior to September 30, 2009 may be directed immediately to existing federalized projects that have already gone through the Local Assistance field review and environmental processes, and can re-obligate the funds by September 30, 2009 and award the contract by December 31, 2009. To provide flexibility, an extension of the September 30, 2009 re-obligation deadline to November 30, 2009 may be allowed under extenuating circumstances, with concurrence from Caltrans Local Assistance that the obligation could occur by November 30, 2009, and such obligation would not interfere with the delivery of other projects. The contract award deadline would remain at December 31, 2009.
- **Cost Savings Realized between September 30, 2009 and March 2, 2010:** Savings realized between September 30, 2009 and March 2, 2010 will be pooled within the county and held until after March 2, 2010 for de-obligation and re-obligation to new projects. This is partly in response to the Caltrans policy that prohibits de-obligations between December 15, 2009 and March 2, 2010, but more importantly to allow Caltrans local assistance time to assist project sponsors in delivering the last of the ARRA projects before the final regional ARRA obligation deadline of November 30, 2009. Cost savings re-obligated to new projects after March 2, 2010, have an obligation deadline of March 31, 2010 and an Award deadline of June 30, 2010. To meet this expedited timeline, CMAs are encouraged to identify and reassign pooled savings in the fall of 2009 so that project sponsors can work with Caltrans Local Assistance and have the project cleared and ready for obligation in early March.
- **Cost Savings Realized After March 2, 2010:** Any additional savings after March 2, 2010, and any funds not obligated by March 31, 2010 or awarded by June 30, 2010 are available at the discretion of MTC to redirect to projects that can quickly obligate the funds prior to the final ARRA deadline of September 30, 2010.

**Cost Savings for Regional Strategic Investments:**

For the non-system preservation projects, including the safety and smart highway projects, obligations must occur no later than November 30, 2009 with the contract award no later than June 30, 2010. There is a small window to address cost savings for these projects. The final federal “drop dead” date for re-obligating cost savings is September 30, 2010; but Caltrans has established a deadline of August 30, 2010 to provide a cushion to ensure flexibility to the State to manage and save any left-over funding. Therefore there will not be sufficient time in most cases to redirect cost savings to multiple small projects. Any funds made available after June 30, 2010 will be at the discretion of MTC to redirect immediately to ready-to-go projects that can quickly obligate the funds prior to the final state and federal deadlines.

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## ARRA (FHWA Funds) Delivery Deadlines

Regional Component	Deadlines
Obligation of LSR System Preservation Projects	May 31, 2009
Award of LSR System Preservation Projects	September 30, 2009
Obligation of all non-system preservation projects	November 30, 2009
Award of all non-system preservation projects	December 31, 2009

State Component	Deadlines
Obligation of Prop. 1B/RTIP Backfill and TE funds	June 30, 2009
Obligation of all remaining funds (SMART Hwys and LSR	November 30, 2009
Award of Prop. 1B/RTIP Backfill and TE funds	December 31, 2009
Award of all remaining funds (SMART Hwys and LSR)	June 30, 2010

Option A: Cost Savings (Short Term)	Deadlines
Obligation of cost savings to existing "cleared" federal-aid projects	September 30, 2009
Contract Award	December 31, 2009
Option B: Cost Savings (Long Term)	Deadlines
CMAs submit program using cost savings to MTC*	October 30, 2009
Request 1511 certifications, TIP revisions, reso. of local support, Local Assistance field reviews for new projects	November 30, 2009
Deobligation and reobligation of new cost savings projects	March 2 - March 31, 2010
Contract award	June 30, 2010

\*CMAs are directed to select only a few projects, none using less than \$500,000 ARRA funds. Smaller projects will be considered if savings are less.

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